TESTIMONY OF PETER KAPPELMAN
CHAIRMAN
LAND O'LAKES, INC.
BEFORE THE AGRICULTURE COMMITTEE
OF THE HOUSE OF REPRESENTATIVES

NOVEMBER 2, 2005

Mr. Chairman and members of the committee, I am Pete Kappelman, a dairy producer from Two Rivers, Wisconsin; Chairman of Land O'Lakes, Inc. (LOL); and a Board Member of the National Milk Producers Federation (NMPF). NMPF works closely with the members and staff of the U.S. Dairy Export Council (USDEC) on issues of trade policy that promote U.S. dairy exports. I am pleased to appear before you today, representing the National Milk Producers Federation, to testify on the status of the World Trade Organization Doha Round negotiations.

I applaud the Chairman and the ranking member of the House Agricultural Committee for having this hearing today. The scheduling of the Hearing is, as you know, incredibly timely. If adopted, the current negotiating proposals from the U.S. or the G-20 would have a major impact on current U.S. programs and on the future of U.S. agriculture, as well as global agricultural markets.

America's dairy industry is the second largest agricultural commodity sector in the United States, as measured by farm cash receipts. There are 70,000 dairy producers in the U.S., farming in every state, from Vermont to California, Oregon to Florida, as well as in Alaska and Hawaii. Dairy is one of the top three agricultural sectors in fully half of the states, and almost two-thirds of the members of the House hail from one of these "dairy" states. Internationally, the U.S. is the world's largest single-country producer of cow's milk.

Impressive as those numbers are, they represent only the milk production side of the industry. Dairy processors, the companies that turn milk into yogurt, cheese, ice cream and milk powder, also add overall strength and employment to the impact of the industry as a whole on the country's economy. In addition, we know that our ability to increase production, which in turn impacts employment in both the producing and processing sectors, is almost unconstrained.

While historically, the U.S. dairy industry has not been heavily dependent on exports; our foreign sales have been on an upward trend for the past few years. U.S. dairy producers still watch import levels with caution; however, given the recent export growth, the U.S. dairy industry believes that with bigger opportunities overseas, this WTO round could result in a positive outcome for us.

Unlike some other U.S. agricultural sectors, the U.S. dairy industry could face high levels of sacrifice in each of the three pillars. Despite the fact that in recent years USDA has not used the Dairy Export Incentive Program (DEIP) in a satisfactory manner that would allow us to even begin to counter EU subsidies, DEIP has been the only U.S. export subsidy used during that time. On market access, the U.S. dairy market is the most desirable and easiest to enter when compared to that of any other desirable dairy market around the world. Unlike Europe and other countries that raise spurious WTO claims to prevent imports (e.g., non-tariff barriers), the U.S. has used only its tariffs to moderately protect our market from unfairly subsidized imports. Finally, our domestic price support program has been a vital part of the U.S. dairy industry and the safety net on which our producers have counted. As you can see Mr. Chairman, the U.S. dairy industry has a significant amount to lose from these negotiations. We could be giving up a very important part of our support system in every single sector of the three pillars. This is why dairy negotiations must be carefully examined by this Committee to ensure that any concession by the U.S. is matched with not only reciprocal movements by other members, but in many cases we must see additional concessions from more protective markets.

For these reasons and the potential for huge reforms in the U.S. and globally, the National Milk Producers Federation is following closely all of the developments related to international trade agreements, but particularly those of the Doha Round, given its primary importance. We welcome every opportunity to provide input to Congress and to our trade negotiators. **If there is one message that members of the House Agricultural Committee should take away from this testimony, it should be that the U.S. dairy industry, although supportive of the direction our negotiators are leading us in, will never commit to unilateral disarmament or an inequitable level of concessions.**

Markets need to be opened overseas before we commit to sizable new openings in our own domestic market. Similarly, other countries must commit to reducing their heavy subsidies and lower their much higher tariffs before we take on further commitments.

With those concerns noted, however, it’s important to recognize that we’ve reached a point we’ve been working towards for the past ten years. Since 1995, the U.S. dairy industry, and in particular the U.S. Dairy Export Council, has worked hard to develop dairy exports with great success. Our exports have changed from primarily government-assisted to market-driven. We’ve seen success abroad, particularly with table and foodservice cheeses, and whey proteins and lactose. More recently, of course, non-fat dry milk has surged under favorable market conditions, as well as commitment by U.S. suppliers to serve the export market. This success was evidenced by record-high exports last year of $1.5 billion, with exports this year on a similarly heated pace.

NMPF's Cooperatives Working Together (CWT) program has further complemented the boost to producers' bottom lines that our exports have helped to support. CWT is a voluntary producer-led program that costs participating producers a nickel per hundredweight of milk to fund programs intended to help stabilize milk prices. These programs currently consist of a carefully structured herd retirement program and an export assistance component. CWT has been instrumental in helping to contribute to the solid prices producers have enjoyed for the past few years. It is also expected to continue to work hand in hand with the price support program to provide a greater degree of predictability and sanity to milk prices.

Though the situation facing the U.S. dairy industry has sharply improved in recent years, it would due a disservice to U.S. dairy producers to continue the inequities in the global markets. That's because two things are certain: 1) our industry will continue to experience great change and 2) the volatility of the world dairy market has not yet diminished.

This requires action on the industry's part. We must continue to innovate and develop new value-added products, including ways to utilize dairy ingredients in a wider array of products. We also must better explain the benefits of dairy. Our industry must also step up to the plate and fight for market share against traditional dairy exporting powerhouses such as the EU, Australia and New Zealand, as well as and up-and-coming dairy industries in countries such as Argentina, Chile and Uruguay. Both groups are innovating and are eager to participate in the expected growth in world-wide dairy consumption. Moreover, we must be especially ready to seize opportunities likely to arise on the world market as a result of a successful Doha Round.

In order to make the most of these possibilities, however, we need a good agreement from our negotiators: one that will usher in a world without export subsidies; one with equity in tariff barriers (greater access for our products) and more equal levels of domestic support between the U.S. and the EU, while maintaining high enough levels of funding to support U.S. agriculture in all manner of WTO colored boxes. Although a successful Doha Round may require some changes to U.S. domestic support, the U.S. dairy industry remains interested in keeping our price support program as the primary dairy safety net.

The obvious benefits to the U.S. dairy industry from a successful Doha Round are why we have been supportive of U.S. negotiators' positions with respect to the direction needed in the Doha Round. We strongly support the drive to swiftly eliminate export subsidies. We believe that movement towards harmonization of market access levels will be beneficial for our industry. And finally, we recognize that domestic support is one of the three main pillars of these negotiations and as such, its allowed levels must be reduced. What is vital with respect to this pillar, however, is that others with higher trade-distorting subsidies than the U.S. be asked to cut more and that the U.S. is able to continue providing a strong safety net for its producers. This safety net must be able to go beyond simply providing green payments to include the ability to fund the dairy price support program.

U.S. dairy producers will be closely monitoring developments in the negotiations. Any special treatment given to a foreign country's dairy sector will be unacceptable if that special consideration is not provided to U.S. dairy producers. We just want a fair deal. Countries where dairy is heavily protected should not be allowed to have special treatment for their dairy industries, if the U.S. does not obtain the same privileges. We support an agreement without any special treatment for dairy, but we must warn Congress and our negotiators against granting any non-reciprocal special concessions to other countries.

Export Subsidies

By removing excess product from the global market, the elimination of export subsidies would help allow our products to compete with the artificially distorted world price. Because of this, the U.S. dairy industry is an ardent advocate for swift and complete elimination of export subsidies. Throughout the elimination period, the EU should not be allowed to shift its subsidy allowances from one product to another. Furthermore, phase-out commitments must apply to both value and quantity in order to assure greater fairness during the implementation period.

Market Access:

Lower tariffs and higher quotas would also increase export opportunities and introduce more consumers to U.S. dairy products. That's provided that import levels are expanded in a fair manner. While we recognize that we will be asked to accept more imports into the United States, it is only fair that others with more closed markets make a proportionately larger contribution.

In order to be able to take advantage of market access opportunities, though, it's vital that other non-tariff regulations do not stand in the way. We recognize the possibility that new challenges might arise for our industry in the form of sanitary and phytosanitary (SPS) issues. SPS issues are often used as non-tariff barriers to block exports in ways even more effective than prohibitive tariff levels. Countries cannot be allowed to negate their market access commitments by throwing up SPS barriers that are not based on sound science in their place.

Domestic Support:

Finally, with respect to the third pillar of negotiations, it is imperative that our government preserve the ability to provide a strong safety net for U.S. dairy producers. We can support reducing the current levels of allowed subsidies under the Amber box as long as it is done in a manner that brings some equity into the current scenario. The Blue box provisions should be always available to all U.S. producers (including dairy) if they are available to other countries. Green box payments should remain unrestricted in order not to discourage countries from moving in the direction of greater use of these non-trade-distorting payments.

Most importantly, however, the United States should only accept reductions in domestic support as part of a package that includes elimination of export subsidies and proportionally larger market access through some form of harmonization. Unless negotiations reduce serious disparities in the levels of government support and offer significant market access in all countries, developed and developing, the United States must continue its current levels for internal programs that counter heavy subsidization by Europe and other OECD members.

Geographical Indications:

In addition to issues related to the three pillars, one “side” issue is of particular importance to the dairy industry – that of geographical indications (GIs). The creation of a world-wide geographical indications registry, as the EU has proposed, would be devastating for the U.S. dairy industry. We urge our negotiators to continue to vigilantly flight to protect the well-known product names in which so many companies here have made significant investments.

However, we are aware that GIs continue to be a priority for the EU. Moreover, domestically, the EU continues to propose changes on this topic and to challenge EU member countries that refuse to comply with its internal mandate. This is an approach that has divided the European continent between those who want to capture and monopolize generic names versus those who believe that generic names, as well as trademarks, are protected both by laws and by years of marketing and development.

We must remain vigilant to ensure that the EU does not seek a trade-off between the elimination of export subsidies and further access in agriculture in exchange for an unprecedented expansion of GIs protection in the international realm. I know that Chairman Goodlatte, in particular, is quite well-versed on the dangers of this proposal by the European Union and is strongly in opposition to it. I would urge all members of this committee to vocally communicate their opposition to a global GIs registry to our negotiators in order to underscore the importance of standing firm on this issue in the face of strong EU support for its creation. Under no terms should the U.S. government agree to a trade-off between GIs and progress in the agricultural negotiations.

Finally, I would like to comment briefly on the latest developments in the WTO negotiations. At the end of last week, the EU released a new agriculture proposal. Although a lot of focus has been placed on their new market access offer, we must first point out that the EU's domestic support offer to maintain the high level of disparity between the U.S. and the EU in Amber box support is unacceptable.

We view the reduction percentages for developed countries in the new EU proposal as at least a starting point for negotiations. However, it is the details of the expansion on markets that are unacceptable from the basis of the U.S. offer. The sensitive products aspect of the EU proposal would maintain the inequities that currently exist in the world dairy trade, especially between the EU and the US. Their new formula is irrational at best; TRQs would be expanded less for the products subject to higher tariffs, rather than the other way around.

Members of the House Agriculture Committee must focus very carefully on what the U.S. is prepared to give in both domestic support and market access compared to what it gets in return. The EU proposal with respect to domestic support and market access does not reflect a balanced proposal when compared to the recent U.S. offer.

Also important to note in the EU's new proposal is its reiteration of the importance of GIs to the Europeans. Again, the U.S. dairy industry will not tolerate a multilateral GI registry that attempts to "claw-back" the generic product names in which we have invested so much throughout their many years of use. We hope to gain new export opportunities from this round, but stringent GI regulations would impose a tremendous cost on U.S. producers and processors. It would force us to reject such an agreement because of the strong net negative result which would occur.

While we continue to work with U.S. negotiators and Congress on all of these issues, the U.S. dairy industry will strive to further encourage our industry to become more efficient. Even as we become more competitive, however, we will need to work hard to ensure that we have a solid dairy producer community that is dedicated to producing quality dairy products both for domestic *and* international markets. The Doha Round remains the single best shot we have at trying to improve the situation our industry faces here and abroad. American dairy producers and processors remain deeply engaged in its negotiations.

In order to best support your agricultural industries' interests, I would urge all members of this committee to monitor the developments of this Round closely and to communicate their priorities and concerns for their producers to our negotiators to underscore the messages they are receiving from industry organizations. I appreciate the opportunity to provide comments on this important issue to this committee. Thank you.